

Total spending and sources of payment for beneficiaries' health care

ISSUE: Many people think only of Medicare spending when considering how much money is spent on health care for the elderly and disabled. However, it is important to look at spending by other sources to achieve a more complete picture. There may be more effective and efficient ways to spend the total dollars currently spent on beneficiaries' health care. In addition, total resources spent on beneficiaries' health care (excluding long-term care) could be viewed as a budget constraint in redesigning the Medicare benefit package. The first part of this presentation will examine spending on both Medicare-covered and non-Medicare covered services. It will look at the sources of payment for these services: Medicare, private supplemental insurance, government supplemental coverage (such as Medicaid), and beneficiary out-of-pocket spending. The second part of the presentation will examine non-Medicare spending – particularly out-of-pocket spending by beneficiaries – in greater detail. It will analyze the growth in out-of-pocket spending, variations among beneficiaries' out-of-pocket spending, and the persistence of such spending over time.

KEY POINTS:

- Medicare accounts for about 60 percent of total spending on beneficiaries' health care.
- A high proportion of health care spending – about 40 percent – is financed by other sources, such as private supplemental insurance, government supplemental coverage, and beneficiary out-of-pocket payments.
- Spending on Medicare-covered services accounts for about 80 percent of total spending; the remaining 20 percent is spent on non-covered services, particularly prescription drugs.
- On a per capita basis, the cost of beneficiaries' health care not paid by Medicare increased by 6 percent per year during 1993-1998, after adjusting for inflation.
- From 1993 through 1998, per capita out-of-pocket spending increased by 3.6 percent per year. However, the percentage of income beneficiaries spend on health was virtually unchanged over that period, averaging 18 percent per beneficiary.
- There is substantial variation in out-of-pocket spending across beneficiaries, resulting in a small percentage of beneficiaries having a disproportionately large share of the total.
- High levels of out-of-pocket spending often persist for several years.
- Beneficiaries with specific characteristics tend to have higher out-of-pocket spending than others. This includes beneficiaries with supplemental insurance purchased in the individual market, those age 75 or older, and those with less than good health.

ACTION: Staff welcome Commissioner comments on this work, which provides supporting evidence for our assessment of the core benefit package.

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